



SWISS WATER DECAFFEINATED COFFEE INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited)

For the Three and Six Months Ended June 30, 2021

SWISS WATER DECAFFEINATED COFFEE INC.

Condensed Consolidated Interim Statements of Financial Position as at

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

		June 30, 2021	December 31, 2020
Assets			
Note			
Current assets			
Cash		\$ 3,241	\$ 2,749
Accounts receivable	4	16,486	15,422
Inventories	5	23,828	18,660
Prepaid expenses and other receivables		892	830
Derivative assets and hedged firm commitments	6, 17	2,376	1,380
Total current assets		46,823	39,041
Non-current assets			
Receivables	4	180	219
Property, plant and equipment	7	100,542	98,124
Intangible assets		507	640
Deferred tax assets		211	138
Derivative assets	6, 17	1,273	1,071
Total non-current assets		102,713	100,192
Total assets		\$ 149,536	\$ 139,233
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable		\$ 11,565	\$ 9,367
Accrued liabilities		3,427	2,698
Borrowings	9	81	918
Income tax payable		208	35
Other liabilities		288	632
Lease liabilities	8	1,728	1,688
Derivative liabilities and hedged firm commitments	6, 17	687	639
Total current liabilities		17,984	15,977
Non-current liabilities			
Other liabilities		71	108
Borrowings	9	50,182	42,067
Lease liabilities	8	20,845	21,729
Asset retirement obligation		1,417	1,415
Deferred tax liabilities		4,811	4,486
Derivative liabilities	6, 9.2, 17	345	457
Total non-current liabilities		77,671	70,262
Total liabilities		95,655	86,239
Shareholders' equity			
Share capital	10	\$ 43,992	\$ 43,710
Retained earnings		8,271	8,151
Accumulated other comprehensive income		1,382	714
Share-based compensation reserve		236	419
Total equity		53,881	52,994
Total liabilities and shareholders' equity		\$ 149,536	\$ 139,233

Commitments (Note 18)

Subsequent event (Note 19)

Approved on behalf of the Board

(signed) "Donald Tringali", Director (signed) "Frank Dennis", Director

– The accompanying notes form an integral part of these condensed consolidated interim financial statements. –

SWISS WATER DECAFFEINATED COFFEE INC.

Condensed Consolidated Interim Statements of Income

(Tabular amounts are in thousands of Canadian dollars, except for per share amounts)

(Unaudited)

	Note	3 months ended		3 months ended		6 months ended		6 months ended	
		June 30, 2021		June 30, 2020		June 30, 2021		June 30, 2020	
Revenue	11,15	\$	28,759	\$	26,380	\$	54,451	\$	48,197
Cost of sales			(25,107)		(21,226)		(47,247)		(38,837)
Gross profit			3,652		5,154		7,204		9,360
Operating expenses									
Administration expenses			(1,625)		(1,975)		(3,406)		(3,013)
Sales and marketing expenses			(921)		(809)		(1,954)		(1,942)
Total operating expenses			(2,546)		(2,784)		(5,360)		(4,955)
Operating income			1,106		2,370		1,844		4,405
Non-operating or other									
Gain (loss) on risk management activities			54		36		(92)		(246)
Gain (loss) on fair value on embedded option	9.2		41		(124)		8		1,350
Finance income			153		127		268		201
Finance expense			(1,028)		(607)		(2,050)		(1,175)
Gain (loss) on foreign exchange			330		442		571		(258)
Total non-operating or other			(450)		(126)		(1,295)		(128)
Income before tax			656		2,244		549		4,277
Income tax (expense)			(440)		(528)		(429)		(1,114)
Net income		\$	216	\$	1,716	\$	120	\$	3,163
Basic earnings per share	14	\$	0.02	\$	0.19	\$	0.01	\$	0.35
Diluted earnings per share	14	\$	0.02	\$	0.19	\$	0.01	\$	0.21

– The accompanying notes form an integral part of these condensed consolidated interim financial statements. –

SWISS WATER DECAFFEINATED COFFEE INC.

Condensed Consolidated Interim Statements of Comprehensive Income and Condensed Consolidated Interim Statements of Changes in Equity

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

Condensed Consolidated Interim Statements of Comprehensive Income

For the

	3 months ended June 30, 2021		3 months ended June 30, 2020		6 months ended June 30, 2021		6 months ended June 30, 2020	
Net income	\$	216	\$	1,716	\$	120	\$	3,163
Other comprehensive income (loss), net of tax								
Items that may be subsequently reclassified to income:								
Unrealized gain (loss)								
Derivatives designated as cash flow hedges - currency risk hedges on US\$ future revenue		639		4,598		1,141		(2,297)
Items reclassified to income:								
Realized loss (gain)								
Derivatives designated as cash flow hedges								
- currency risk hedges on US\$ future revenue, recognized in revenue		(250)	\$	223		(201)		325
Other comprehensive income (loss) related to hedging activities		389		4,821		940		(1,972)
Tax (expense) recovery on other comprehensive income relating to hedging activities		(105)		(1,301)		(254)		533
Cumulative translation adjustment		(5)		(4)		(18)		2
Other comprehensive income (loss), net of tax		279		3,516		668		(1,437)
Net income and other comprehensive income	\$	495	\$	5,232	\$	788	\$	1,726

Condensed Consolidated Interim Statements of Changes in Equity

Note	Share capital		Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	Total equity
	Shares	Amount				
Balance at December 31, 2019	9,061,210	\$ 43,591	\$ 353	\$ (646)	\$ 5,202	\$ 48,500
Shares issued for restricted share units	17,570	119	(119)	-	-	-
Share-based compensation	-	-	84	-	-	84
Net income and other comprehensive loss	-	-	-	(1,437)	3,163	1,726
Balance at June 30, 2020	9,078,780	\$ 43,710	\$ 318	\$ (2,083)	\$ 8,365	\$ 50,310
Balance at December 31, 2020	9,078,780	\$ 43,710	\$ 419	\$ 714	\$ 8,151	\$ 52,994
Shares issued for restricted share units	50,893	282	(282)	-	-	-
Share-based compensation	-	-	99	-	-	99
Net loss and other comprehensive income	-	-	-	668	120	788
Balance at June 30, 2021	9,129,673	\$ 43,992	\$ 236	\$ 1,382	\$ 8,271	\$ 53,881

- The accompanying notes form an integral part of these condensed consolidated interim financial statements. -

SWISS WATER DECAFFEINATED COFFEE INC.

Condensed Consolidated Interim Statements of Cash Flows For the

(Tabular amounts are in thousands of Canadian dollars)

(Unaudited)

Note	3 months ended June 30, 2021	3 months ended June 30, 2020	6 months ended June 30, 2021	6 months ended June 30, 2020
Operating activities				
Net income	\$ 216	\$ 1,716	\$ 120	\$ 3,163
Items not affecting cash:				
Depreciation and amortization	1,703	850	3,416	1,699
Share-based compensation expense (recovery)	144	159	374	(417)
Unrealized gain (loss) on risk management activities	155	(221)	309	393
Unrealized loss (gain) on fair value adjustment of embedded option	(41)	124	(8)	(1,350)
Finance income	(153)	(127)	(268)	(201)
Finance expense	1,028	607	2,050	1,175
Income tax expense	440	528	429	1,114
Other	(162)	28	(146)	62
	3,330	3,664	6,276	5,638
Change in non-cash working capital relating to operating activities	16 (3,448)	262	(5,476)	(3,071)
Net cash generated from operations	(118)	3,926	800	2,567
Interest received	190	127	286	201
Interest paid	16 (761)	(803)	(1,533)	(1,615)
Income taxes paid	(25)	-	(25)	-
Net cash (used in) generated from operating activities	(714)	3,250	(472)	1,153
Investing activities				
Additions to plant and equipment	16 (2,386)	(6,524)	(5,037)	(10,653)
Net cash used in investing activities	(2,386)	(6,524)	(5,037)	(10,653)
Financing activities				
Dividends paid	-	-	-	(566)
Payment of lease liabilities	(421)	(364)	(844)	(690)
Proceeds from credit facility	3,000	4,800	5,200	10,100
Repayments of credit facility	(2,500)	(3,300)	(2,500)	(3,300)
Financing costs	16 (153)	-	(153)	-
Proceeds from construction loans	4,298	-	4,298	-
Net cash generated from financing activities	4,224	1,136	6,001	5,544
Increase (decrease) in cash and cash equivalents	1,124	(2,138)	492	(3,956)
Cash and cash equivalents, beginning of the period	2,117	4,921	2,749	6,739
Cash and cash equivalents, end of the period	\$ 3,241	\$ 2,783	\$ 3,241	\$ 2,783

– The accompanying notes form an integral part of these condensed consolidated interim financial statements. –

SWISS WATER DECAFFEINATED COFFEE INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2021

(Tabular amounts are in thousands of Canadian dollars, except share and per share amounts)

(Unaudited)

1. NATURE OF BUSINESS

Swiss Water Decaffeinated Coffee Inc., (“Swiss Water” or the “Company”), is an entity incorporated under the Canada Business Corporations Act (“CBCA”). The common shares of the Company are listed on the Toronto Stock Exchange under the symbol ‘SWP’. The Company’s head office is located at 7750 Beedie Way, Delta, British Columbia, V4G 0A5, Canada.

Swiss Water is primarily involved in the decaffeination of green coffee without the use of chemicals by employing the proprietary SWISS WATER® Process. The Company leverages science-based systems and quality controls to produce coffee that is 99.9% caffeine free.

2. BASIS OF PREPARATION

The Company’s condensed consolidated interim financial statements for the three and six months ended June 30, 2021 have been prepared in accordance with International Accounting Standards 34 – Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain disclosures included in the annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB have been condensed or omitted. These condensed consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2020.

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company’s audited consolidated financial statements for the year ended December 31, 2020.

These condensed consolidated interim financial statements are presented in Canadian dollars. Except for per share amounts, all amounts are expressed in thousands of Canadian dollars, unless otherwise stated. References to US\$ are to the United States dollars.

These condensed consolidated interim financial statements for the three and six months ended June 30, 2021 were approved for issuance by the Company’s Directors on August 4, 2021. There were no significant non-adjusting events that occurred between the reporting date and the date of authorization.

2.1 New and amended standards

The following amendments to accounting standards became effective for annual periods beginning on or after January 1, 2021. The adoption of these revised standards by the Company did not have a material impact on its condensed consolidated interim financial statements.

- *IAS 1* amendments address the classification of liabilities between current and non-current;
- *IFRS 9/ IAS 39 and IFRS 7* (phase 2) were amended to address issues arising from the implementation of interest rate benchmark reform (“IBOR”), including the replacement of one benchmark with an alternative one. The Company has not currently transitioned its agreements to address IBOR. Currently, our Credit Facility (Note 9.3) would be exposed to the implementation of IBOR but we do not expect the replacement to result in a significant change to our risk management strategy.

2.2 New and amended standards not yet effective

These standards are effective for periods beginning after January 1, 2022 and the Company does not anticipate a material impact on its financial statements:

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- *IFRS 9* Amended to address which fees should be included in the 10% test for derecognition of financial liability.
- *IAS 37* Amended to clarify (i) the meaning of “costs to fulfil a contract”, and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.
- *IAS 16* Amended to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset, and (iii) require certain related disclosures.
- *IAS 12* Amended to require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Consequential amendment to IFRS 1 to add an exception to retrospective application.

3. CAPITAL MANAGEMENT

The Company’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include shareholders’ equity and indebtedness. In order to maintain or adjust the capital structure, the Company may from time-to-time issue common shares, issue additional debt, adjust its capital spending, modify its dividend policy, and/or dispose of certain assets to manage current and projected debt levels.

4. ACCOUNTS RECEIVABLE

Accounts receivable as at June 30, 2021 are recorded net of expected credit losses of nil (2020: nil). The Company monitors lifetime expected credit losses using the simplified approach which is determined based on historic and adjusted relevant forward-looking information. The Company’s customers have a negligible default rate and the Company’s experience both in frequency and amount of losses are low.

5. INVENTORIES

During the three and six months ended June 30, 2021, the cost of inventories recognized in cost of sales was \$24.2 million (2020: \$20.0 million) and \$45.1 million (2020: \$36.7 million) respectively. The hedge accounting component represents the derivative adjustment related to designated hedges for inventory on hand as at each period.

	June 30, 2021	December 31, 2020
Raw materials	\$ 9,444	\$ 6,436
Finished goods	11,308	10,442
Carbon	431	501
Packaging	232	159
Hedge accounting component	2,413	1,122
	\$ 23,828	\$ 18,660

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6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company's derivative financial instruments, asset (liability), were carried at fair value through profit or loss as follows:

		June 30, 2021	December 31, 2020
Coffee futures contracts, net	\$	996	\$ 505
US Dollar forward contracts, current		(234)	(52)
US Dollar forward contracts, long-term		-	-
Derivative financial liability, convertible debenture	Note 9.2	(344)	(352)
	\$	418	\$ 101

The Company's derivative financial instruments, liabilities, were carried at fair value through other comprehensive income as follows:

		June 30, 2021	December 31, 2020
US Dollar forward contracts, current	\$	624	\$ (10)
US Dollar forward contracts, long-term		1,273	967
	\$	1,897	\$ 957

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprise owned and leased right-of-use assets.

		June 30, 2021	December 31, 2020
Property, plant and equipment	\$	79,823	\$ 76,295
Right-of-use assets		20,719	21,829
	\$	100,542	\$ 98,124

7.1 Property, plant and equipment

Property, plant and equipment additions during the first half year of 2021 consisted of \$5.7 million (2020: \$4.5 million). For the three and six months ended June 30, 2021, this increase was offset by depreciation charges of \$1.1 million and \$2.2 million respectively (2020: \$0.4 million and \$0.8 million).

7.2 Right-of-use assets

For the three months ended June 30, 2021, depreciation expense of \$0.5 million (2020: \$0.3 million) was charged to cost of sales and \$0.07 million (2020: \$0.07 million) was included in administrative expenses.

For the six months ended June 30, 2021, depreciation expense of \$1.0 million (2020: \$0.6 million) was charged to cost of sales and \$0.15 million (2020: \$0.15 million) was included in administrative expenses.

In addition, during the second quarter of 2021, the Company recognized in the property plant and equipment \$0.1 million related to the Canadian Scientific Research and Development Tax Credit.

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(Unaudited)

8. LEASE LIABILITIES

Amounts recognized in the statement of net income and statement of cash flows

For the three and six months period ended June 30 2021 the lease liabilities interest expense recognized in profit and loss was \$0.3 million and \$0.6 million respectively compared to \$0.1 million and \$0.3 million in the same periods in 2020. The minimum lease payments recognized in the financing component of the statement of cash flows were \$1.4 million and \$1.3 million during the six months ended June 30, 2021 and 2020, respectively.

9. BORROWINGS

As at and during the first half year ended June 30, 2021, the Company was in compliance with all covenants.

			June 30, 2021	December 31, 2020
Construction loans with BDC and FCC	Note 9.1	\$	24,144	\$ 20,083
Convertible debenture	Note 9.2		13,395	13,102
Credit facility	Note 9.3		12,724	9,800
Borrowings, total		\$	50,263	\$ 42,985
Less current portion				
Construction loan and interest	Note 9.1	\$	(81)	\$ (918)
Borrowings, non-current		\$	50,182	\$ 42,067

9.1 Construction loans with BDC and FCC

In the fourth quarter of 2018, the Company completed a transaction with the Business Development Bank of Canada ("BDC") for a term loan facility ("Term Loan") of up to \$20.0 million. The purpose of the Term Loan is to assist in the financing of new equipment for the first production line built in Delta, British Columbia. The interest rate for the Term Loan was 4.95% per annum over 12 years. Principal repayment began on July 1, 2021 and matures on June 1, 2033.

On June 3, 2021, the Company completed a financing transaction by increasing the existing term to \$45.0 million from the existing \$20.0 million to fund the planned construction of a second production line in its Delta location. The financing was provided by Business Development Corp ("BDC"), our existing creditor, and Farm Credit Canada ("FCC") in a Pari Passu structure. Each lender will fund 50% of the \$45 million total loan value. Our existing borrowing with BDC will increase from \$20 million to \$22.5 million ("BDC Amended Term Loan") and FCC will also fund us \$22.5 million ("FCC Term Loan"). Upon closing of the transaction, the Company's outstanding debt to each party, FCC and BDC, was \$10 million. FCC paid \$10.0 million to BDC on the Company's behalf to ensure that existing borrowings were restructured on a Pari Passu basis.

Only interest will be paid on the outstanding balance on a monthly basis prior to July 1, 2024 for both the BDC Amended Term Loan and FCC Term Loan. Principal repayments for both loans commence on July 1, 2024 and will be repaid in monthly installments until both loans mature on June 1, 2034.

The FCC Term Loan consists of a fixed term loan and a variable loan. The fixed term loan bears an interest rate of 4.38% and the variable loan bears an interest rate of variable rate minus 0.75%. The interest rate on the variable loan rate is currently 2.95%.

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(Unaudited)

The BDC Amended Term Loan bears an interest rate of 4.45%. The new terms in the BDC Amended Term Loan supersede the terms on the previous agreement.

Management determined that the terms within the BDC Amended Term Loan and the terms within the original BDC Term Loan were substantially different, as such this debt restructuring transaction was accounted using the extinguishment method of accounting for debt reconstruction.

The Company incurred \$0.2 million in financing transaction costs in connection with the Pari Passu agreement, which were recorded as deferred financing transaction costs in the non-current period of borrowings. These transactions costs are amortized until the construction loans maturity date.

As of June 30, 2021, the construction loans comprise of:

		June 30, 2021		December 31, 2020
Balance, open	\$	20,083	\$	20,084
Additions		4,306		-
Interest charged		493		992
Interest paid		(493)		(993)
Less unamortized transaction costs		(245)		-
Balance, end	\$	24,144	\$	20,083

As of the period end, the loan amount outstanding was as follows:

		June 30, 2021		December 31, 2020
Construction loans in current liabilities	\$	81	\$	918
Construction loans in non-current liabilities				
BDC fixed		12,100		19,165
FCC fixed		9,755		-
FCC variable		2,208		-
	\$	24,144	\$	20,083

Finance expense

Interest is based on the outstanding loan balance and is paid monthly. Interest expense and interest paid on the BDC loan were \$0.2 million and \$0.5 million during the three and six months ended June 30, 2021, respectively (2020: \$0.25 million, \$0.5 million). Interest expense on FCC loan was \$0.03 million during the three and six months ended June 30, 2021 (2020: nil).

Security

The construction loans are secured by a general security agreement and a first security interest on all existing equipment and machinery plus new equipment and machinery financed with the construction loans for both BDC and FCC. Seaforth provided a guarantee for the construction loans to both BDC and FCC.

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(Tabular amounts are in thousands of Canadian dollars, except share and per share amounts)

(Unaudited)

9.2 Convertible Debenture

On October 11, 2016, the Company issued an unsecured subordinated convertible debenture for gross proceeds of \$15.0 million. The convertible debenture is due on October 11, 2023. In 2016, the Company paid financing costs of \$0.5 million in respect of issuing the convertible debenture.

The Company uses the residual value method to allocate the fair value of the convertible debenture between the liability component and the derivative liability.

Liability component of the convertible debenture

The liability component of the convertible debenture was initially measured at a fair value of \$11.2 million, which represents the present value of the contractually determined stream of cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without derivative components, of 12.15% per annum. As at June 30, 2021 the liability component was \$13.4 million (December 31, 2020: \$13.1 million).

Finance expense

The convertible debenture bears interest at a rate of 6.85% per annum to be paid quarterly in arrears. The 6.85% interest rate is subject to reaching specific covenant thresholds, in excess of these, the interest rate increases to 7.85% per annum. Under the terms of the agreement, Swiss Water had the option to pay interest-in-kind for the first two years. If elected, this option would have increased the principal sum by the interest owing. The Company chose not to elect to pay interest-in-kind.

The interest expensed for the three and six months period ended June 30, 2021 and 2020 were \$0.4 million and \$0.8 million respectively (2020: \$0.4 million, \$0.8 million), while the interest paid was \$0.3 million and \$0.5 million (2020: \$0.3 million and \$ 0.5 million).

	June 30, 2021	December 31, 2020
Balance, open	\$ 13,102	\$ 12,560
Interest charged	803	1,569
Interest paid	(510)	(1,027)
Balance, end	\$ 13,395	\$ 13,102

Conversion

The convertible debenture is convertible into common shares of the Company at a conversion price of \$8.25 per common share. The convertible debenture also includes a net share settlement feature that allows Swiss Water, upon conversion, to elect to pay cash equal to the face value of the convertible debenture and to issue common shares equal to the excess value of the underlying equity above the face value of the convertible debenture. If the net share settlement option is elected, it will result in fewer common shares being issued.

Derivative financial liability component embedded in the convertible debenture

Under the residual value method, as at June 30, 2021, the derivative liabilities include the fair value of the derivative liability embedded in the convertible debenture in the amount of \$0.3 million (2020: \$0.3 million). During the three and six months ended June 30, 2021, this revaluation resulted in a gain of \$0.04

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million and a gain of \$0.01 million being recorded in the statement of income (2020: loss of 0.1 million and gain of \$1.4 million).

	June 30, 2021	December 31, 2020
Balance, open	\$ 352	\$ 1,680
Change in fair valuation of derivative embedded option	(8)	(1,328)
Balance, end	\$ 344	\$ 352

The fair value of the derivative liability was determined using the Black-Scholes Option Pricing Model. The variables and assumptions used in computing the fair value are based on management's best estimate. The value varies with different variables of certain subjective assumptions. Inputs into the Black-Scholes Option Pricing Model to determine the fair value of the conversion option were as follows:

	June 30, 2021	December 31, 2020
Share price	\$ 3.13	\$ 3.06
Exercise price	\$ 8.25	\$ 8.25
Option life	2.28 years	2.78 years
Volatility	51%	48%
Risk-free interest rate	0.45%	0.25%
Dividend yield	0.00%	0.00%

Subsequent to June 30, 2021, the convertible debenture transaction with the lender was amended. See subsequent event Note 19.

9.3 Credit Facility

On October 18, 2019, Swiss Water entered into a revolving credit facility agreement ("Credit Facility"), with a Canadian Bank, for borrowings up to the lower of the Borrowing Base (defined below) and \$30.0 million.

The amounts drawn on the credit facility are classified in the consolidated statement of financial position as a part of non-current liabilities as the Company is not required to repay any balance outstanding until the maturity date of October 18, 2022, as long as the outstanding balance is not in excess of the Borrowing Base. The maturity date can be extended, subject to lenders' approval. As at June 30, 2021, the Credit Facility comprises:

	June 30, 2021	December 31, 2020
Credit Facility	\$ 12,895	\$ 10,021
Less unamortized transaction costs	(171)	(221)
	\$ 12,724	\$ 9,800

Financing transaction costs in connection with the Credit Facility were deferred and are amortized until the Credit Facility's maturity date.

Security

The Company has pledged substantially all of its assets, except for assets pledged to BDC under the Term Loan (Note 9.1), as a collateral for the Credit Facility, including a first priority security interest over all

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inventory, accounts receivable, excess margin and gains on the commodity account, gains in the foreign exchange line of credit and other assets of the Company.

Borrowing base

The Credit Facility's Borrowing Base margins eligible inventories and accounts receivable, commodity hedging account equity margin plus its market-to-market gains, which are netted against any losses in the commodity account and foreign exchange contract facility. Amounts can be drawn in either Canadian or in US\$ dollars and can be borrowed, repaid, and re-borrowed to fund operations, capital expansions, letters of credit and for general corporate purposes.

As at June 30, 2021, the Company's borrowing availability was as follows:

	June 30, 2021		December 31, 2020	
Gross borrowing base availability	\$	15,692	\$	15,028
Advances, repayments, fees and interest		(12,895)		(10,021)
Outstanding letters of credit		(300)		(300)
Interests and fees accrued		35		35
	\$	2,532	\$	4,742

Foreign exchange and commodity futures contract facilities

As part of the Credit Facility, the Company has an US\$8.0 million foreign exchange and commodity futures contract facility, which allows the Company to enter into spot, forward and other foreign exchange rate transactions and commodity futures transactions with the bank with a maximum term of up to 60 months.

Foreign exchange facility guarantee

On June 1, 2020, the Company entered into a foreign exchange facility guarantee to cover margin requirements in relation to the foreign exchange facility. On August 4, 2020, the Company's Credit Facility Lender amended the credit agreement to recognize the foreign exchange facility guarantee provided by the third party. The facility guarantees a maximum aggregate liability of up to \$6.0 million and it is valid until May 31, 2022. This guarantee provides additional borrowing capacity within the referenced credit facility.

10. SHARE CAPITAL

Swiss Water is authorized to issue an unlimited number of common shares. Each share is equally eligible to receive dividends when declared and represents one vote at meetings of shareholders.

As of June 30, 2021, there were 9,129,673 common shares issued and outstanding.

Restricted share units

On the reporting date, the Company values the RSUs using the volume based weighted average share price ("VWAP"). VWAP is based on the Canadian dollar trading price of the Company's common shares on the Toronto Stock Exchange for the five trading days immediately preceding that relevant date, calculated by dividing the total value by the total volume of common shares traded, according to the RSU Plan.

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The movement in RSUs was as follows:

	Number of RSUs	Volume based weighted average share price	Average remaining vesting period (years)	Performance based
Balance at January 1, 2020	224,836	\$ 7.07	1.40	
RSUs granted	121,140	\$ 2.95	2.15	No
RSUs issued for dividends	2,098	\$ 6.70	0.67	No
RSUs cash-settled	(23,654)	\$ 6.28	-	No
RSUs exercised	(17,570)	\$ 6.28	-	No
Balance at December 31, 2020	306,850	\$ 2.88	1.26	
Balance at January 1, 2021	306,850	\$ 2.88	1.26	
RSUs granted	87,000	\$ 3.13	2.75	No
RSUs cash-settled	(45,792)	\$ 3.51	-	No
RSUs exercised	(50,893)	\$ 5.56	-	No
RSUs forfeited	(11,679)	\$ 3.70	-	No
Balance at June 30, 2021	285,486	\$ 3.15	1.68	

Deferred share units

On the reporting date, the Company values the DSUs using FMV. The FMV of DSUs is defined in the DSU Plan as the weighted average closing price of Swiss Water shares for the five business days immediately preceding the relevant date.

The movement in DSUs was as follows:

	Number of DSUs	Weighted average share price	Performance based
Balance at January 1, 2020	126,267	\$ 6.92	
DSUs issued	55,340	\$ 3.33	No
DSUs redeemed	(10,289)	\$ 2.99	No
Balance at December 31, 2020	171,318	\$ 3.06	
Balance at January 1, 2021	171,318	\$ 3.06	
DSUs issued	43,978	\$ 3.08	No
DSUs redeemed	(153,813)	\$ 3.17	No
Balance at June 30, 2021	61,483	\$ 3.10	

11. REVENUE

Disaggregation of revenue

Revenue disaggregated by geographical markets is disclosed in Note 15. The Company also disaggregates revenue by major products and services: decaffeinated coffee sales, decaffeination services, and distribution with the following results:

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	3 months ended June 30, 2021		3 months ended June 30, 2020		6 months ended June 30, 2021		6 months ended June 30, 2020	
Decaffeinated coffee sales	\$	25,350	\$	22,648	\$	47,729	\$	41,523
Decaffeination services		1,437		1,838		2,863		3,093
Distribution		1,972		1,894		3,859		3,581
	\$	28,759	\$	26,380	\$	54,451	\$	48,197

Contract balances

As at June 30, 2021 the accounts receivable balance of \$16.5 million (December 31, 2020: \$15.4 million) consists of amounts due from customer contracts and reflects the Company's right to a consideration that is unconditional. The Company did not have other contract assets or liabilities from contracts with customers.

12. EMPLOYEE BENEFITS EXPENSES

Expenses recognized for employee benefits are detailed below:

	3 months ended June 30, 2021		3 months ended June 30, 2020		6 months ended June 30, 2021		6 months ended June 30, 2020	
Short-term benefits	\$	2,626	\$	2,810	\$	5,546	\$	5,489
Long-term benefits		144		161		374		(417)
Post-employment benefits		281		251		592		554
	\$	3,051	\$	3,222	\$	6,512	\$	5,626

13. RELATED PARTY TRANSACTIONS

The Company's related parties include its subsidiaries, key management personnel and a company related to a director. Details of transactions between the Company and related are discussed below. All intercompany transactions, balances, income and expenses are eliminated on consolidation.

Compensation of Key Management Personnel

The remuneration of directors and key management personnel is as follows:

	3 months ended June 30, 2021		3 months ended June 30, 2020		6 months ended June 30, 2021		6 months ended June 30, 2020	
Short-term benefits	\$	447	\$	668	\$	1,106	\$	1,208
Long-term benefits		88		130		277		(422)
Post-employment benefits		59		49		129		114
	\$	594	\$	847	\$	1,512	\$	900

Trading transactions

During the three and six months ended June 30, 2021 and 2020, the Company entered into the following transactions with a company that is related to a director:

	3 months ended June 30, 2021		3 months ended June 30, 2020		6 months ended June 30, 2021		6 months ended June 30, 2020	
Sales	\$	145	\$	121	\$	341	\$	190
Purchases of raw materials	\$	1,908	\$	955	\$	2,102	\$	2,215

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As at the balance sheet date, the Company had the following balances receivable from and payable to a company that is related to a director:

	June 30, 2021	December 31, 2020
Accounts receivable	\$ 6	\$ 40
Accounts payable	\$ 1,408	\$ 279

These transactions were in the normal course of operations and were measured at the fair value of the consideration or receivable, which was established and agreed to by both parties.

14. BASIC AND DILUTED EARNINGS PER SHARE ("EPS")

	3 months ended		3 months ended		6 months ended		6 months ended	
	June 30, 2021		June 30, 2020		June 30, 2021		June 30, 2020	
Basic- earnings per share								
Net- income attributable to shareholders	\$	216	\$	1,716	\$	120	\$	3,163
Weighted average number of shares		9,129,673		9,078,780		9,114,771		9,073,567
Basic- earnings per share	\$	0.02	\$	0.19	\$	0.01	\$	0.35
Diluted- earnings per share								
Net- income attributable to shareholders	\$	216	\$	1,716	\$	120	\$	3,163
Effect of diluted securities: RSUs		-		-		-		(19)
Interest on convertible debenture		-		-		-		564
Gain on fair value adjustment of embedded option		-		-		-		(1,350)
Net- income after effect of diluted securities	\$	216	\$	1,716	\$	120	\$	2,358
Weighted average number of shares - basic		9,129,673		9,078,780		9,114,771		9,073,567
Effect of diluted securities: RSUs		-		-		-		198,672
Effect of diluted securities: convertible debenture		-		-		-		1,818,182
Weighted average number of shares - diluted		9,129,673		9,078,780		9,114,771		11,090,421
Diluted- earnings per share	\$	0.02	\$	0.19	\$	0.01	\$	0.21

The following potential common shares are anti-dilutive in one or more periods and are therefore excluded from the weighted average number of common shares outstanding for the purposes of calculating the diluted earnings per share for such periods:

	3 months ended		3 months ended		6 months ended		6 months ended	
	June 30, 2021		June 30, 2020		June 30, 2021		June 30, 2020	
Weighted average number of RSUs granted		285,486		187,041		270,428		-
Convertible debenture		1,818,182		1,818,182		1,818,182		-

15. SEGMENT REPORTING

The Company's sales are primarily generated by the decaffeination of the green coffee segment and in three geographic areas: Canada, the United States and other international markets. The Company's revenue from external customers and its non-current assets (not including deferred tax assets), by location, are detailed below.

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Revenue

	3 months ended June 30, 2021		3 months ended June 30, 2020		6 months ended June 30, 2021		6 months ended June 30, 2020	
Canada	\$	10,532	7,175	\$	19,096	\$	14,556	
United States		12,405	13,627		23,253		23,851	
International and other		5,822	5,578		12,102		9,790	
	\$	28,759	\$	26,380	\$	54,451	\$	48,197

Non-Current Assets (excluding deferred tax assets)

	June 30, 2021		December 31, 2020	
Canada	\$	102,131	\$	99,651
United States		130		207
Europe		241		196
	\$	102,502	\$	100,054

16. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital are as follows:

	3 months ended June 30, 2021		3 months ended June 30, 2020		6 months ended June 30, 2021		6 months ended June 30, 2020	
Accounts receivable	\$	(187)	\$	(451)	\$	(1,082)	\$	1,507
Inventories		(2,334)		211		(3,878)		(3,254)
Other assets and liabilities		(319)		89		(617)		(707)
Prepaid expenses and other receivables		(146)		(57)		(62)		153
Accounts payable and accrued liabilities		1,875		(1,574)		2,078		(2,016)
Derivative assets, liabilities and hedged firm commitments at fair value through profit and loss		(2,337)		2,044		(1,915)		1,246
	\$	(3,448)	\$	262	\$	(5,476)	\$	(3,071)

As at June 30, 2021 \$3.2 million (2020: \$0.4 million) in additions to construction in progress was accrued in accounts payable and accrued liabilities. These are operating and investing transactions that did not require the use of the Company's cash.

For the six months period ended June 30, 2020, interest paid included \$0.5 million of interest on the construction loan and \$0.3 million of interest on lease liabilities which were capitalized during the construction phase of the new facility. In the year 2021 no paid interest was capitalized within the property plant and equipment. Also, during the period ended June 30, 2020 the Company capitalized \$0.4 million of depreciation related to right-of-use assets. No such depreciation was capitalized during the comparable period in 2021.

Cash paid to settle RSUs was \$0.2 million (2020: \$0.1 million) during the six months period ended June 30, 2021. There were no cash payments to settle RSUs during the three months ended June 30, 2021.

Proceeds from the renegotiated construction loans were \$4.3 million and the Company paid \$0.2 million in financing transaction costs during the second quarter of 2021, while there were no such transactions in 2020.

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During the second quarter of 2021, the Company recognized in the property plant and equipment and the administrative expenses a Scientific Research and Development tax credit of \$0.1 million and \$0.1 million, respectively. The tax credit was a non cash transaction recognized within the financing and operating activities.

17. FINANCIAL RISK MANAGEMENT

The Company's risk management program focuses on the unpredictability of commodity prices and foreign exchange rates and seeks to minimize potential adverse effects on the Company's financial performance and cash flows. The Company uses derivative financial instruments to hedge these risk exposures. In addition, the Company monitors other financial risks on a regular basis.

Risk management is carried out under policies approved by the Board of Directors. The Company's exposure to and management of financial risks is discussed in more detail below.

Risks related to COVID-19

In March 2020, the World Health Organization declared a global pandemic known as COVID-19. As a result of measures taken by governments to curb the spread of COVID-19, many countries have entered into an economic recession since the second quarter of 2020. Swiss Water was deemed an essential service and continued to operate largely uninterrupted despite the pandemic with appropriate protocols in place to protect the safety and health of employees. During the early stages of the pandemic, we experienced strong short term volume pull from customers that service the retail grocery trade as consumers loaded their pantries in anticipation of quarantines and supply disruptions, or simply consumed their coffee at home. Also, the demand for coffee shifted between customer types. This pandemic may continue to impact the demand for our products and services in the near term as well as impact the supply chain. It may also impact expected credit losses on our amounts due from customers and whether the entity continues to meet the criteria for hedge accounting. For example, if a hedged forecast transaction is no longer highly probable to occur, hedge accounting is discontinued.

17.1 Credit risk

The Company is exposed to credit risk with respect to its cash and cash equivalents, accounts receivable and derivative financial instruments.

The Company does not have significant credit risk related to cash and cash equivalents as amounts are held with major financial institutions.

The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. For the six months period ended June 30, 2021, revenues from three major customers of \$18.7 million (2020: \$14.5 million) represented 34% (2020: 31%) of total revenues for the period. Three customers represented 62% of total accounts receivable as at June 30, 2021 (December 31, 2020: 58%).

The Company had 5% of its accounts receivable past due but not impaired as at June 30, 2021 (December 31, 2020: 11%). Of the past due accounts receivable, 94% are 1-30 days past due (December 31, 2020: 92%), while 6% are over 31 days past due (December 31, 2020: 8%).

The Company manages the credit risk related to its derivative financial instruments by entering into such contracts only with high credit quality institutions.

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17.2 Commodity price risk

Commodity price risk is the risk that the fair value of inventory or future cash flows will fluctuate as a result of changes in commodity prices. The Company utilizes futures contracts to manage its commodity price exposure. The Company buys and sells futures contracts for coffee on the Intercontinental Exchange in order to offset its inventory position and fix the input cost of green coffee. As at June 30, 2021, the Company had futures contracts to buy 12.5 million lbs of green coffee with a notional value of US \$19.3 million, and contracts to sell 18.5 million lbs of green coffee with a notional value of US\$28.5 million. The furthest contract matures in December 2021. (December 31, 2020: buy 2.5 million lbs of green coffee with a notional value of US\$3.0 million, and contracts to sell 6.6 million lbs of green coffee with a notional value of US\$7.9 million).

The following tables provide a summary of commodity hedges designated as hedging instruments:

Carrying amount of hedging instruments	June 30, 2021		December 31, 2020	
Fair value hedge	Commodity price risk Coffee futures		Commodity price risk Coffee futures	
Nominal amount of hedging instruments (in US\$'000)	\$	9,211	\$	4,935
Line item in the statement of financial position where hedging instrument is located				
Derivative Assets	\$	996	\$	515
Derivative Liabilities		-		10
Changes in fair value used for calculating hedge ineffectiveness		-		-
Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items	June 30, 2021		December 31, 2020	
Fair value hedge	Purchase commitments and coffee inventory		Purchase commitments and coffee inventory	
Nominal amount of hedged item (in '000 lbs)		6,013		4,019
Line items in the statement of financial position where hedged item is located		Inventories & hedged firm commitments		Inventories & hedged firm commitments
Assets	\$	2,885	\$	1,288
Liabilities		396		190
Changes in fair value used for calculating hedge ineffectiveness		-		-

17.3 Foreign currency risk

The Company realizes a significant portion of its sales in US\$, and purchases green coffee in US\$ which is, in some cases, sold to customers in Canadian dollars. The Company enters into forward foreign currency contracts to manage its exposure to currency rate fluctuations and to minimize the effect of exchange rate fluctuations on business decisions. These contracts relate to the Company's future net cash flows in US\$ from sales. In addition, the Company enters into forward contracts to buy US\$ for coffee that it resells in Canadian dollars.

As at June 30, 2021, the Company had forward currency contracts to buy US\$9.6 million and sell US\$46.5 million (December 31, 2020: buy US\$5.6 million and sell US\$51.0 million) from July 2021 through to February 2025 at various Canadian exchange rates ranging from \$1.2090 to \$1.3626.

The following tables provide a summary of amounts related to foreign currency forward contracts designated as hedging instruments. Not included in the tables below are fair value changes for swap contracts, as these are not designated hedge instruments.

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Currency risk hedges on US\$ purchases

As at June 30, 2021, the Company designated as hedging instruments US\$9.6 million in forward contracts to buy US dollars, which relate to coffee purchases (2020: US\$5.6 million).

Carrying amount of hedging instruments	June 30, 2021		December 31, 2020	
Fair value hedge		Foreign currency purchase forwards		Foreign currency purchase forwards
Nominal amount of hedging instruments (in US\$'000)	\$	9,622	\$	5,646
Line item in the statement of financial position where hedging instrument is located				
Derivative Assets	\$	10	\$	-
Derivative Liabilities		166		263
Changes in fair value used for calculating hedge ineffectiveness		-		-
Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items	June 30, 2021		December 31, 2020	
Fair value hedge		Firm purchase commitments & inventories		Firm purchase commitments & inventories
Nominal amount of hedged item (in US\$'000)	\$	9,622	\$	5,646
Line item in the statement of financial position where hedged item is located		Inventories & hedged firm commitments		Inventories & hedged firm commitments
Assets	\$	228	\$	323
Changes in fair value used for calculating hedge ineffectiveness		-		-

Currency risk on hedge on US\$ sales

As at June 30, 2021, the Company designated as hedging instruments US\$32.1 million in forward contracts to sell US dollars, which relate to highly probable forecasted sales revenue. (2020: US\$38.7 million).

Carrying amount of hedging instruments	June 30, 2021		December 31, 2020	
Cashflow hedge		Currency risk Foreign currency forwards		Currency risk Foreign currency forwards
Nominal amount of hedging instruments (in US\$'000)	\$	32,119	\$	38,709
Line items in the statement of financial position where hedging instrument is located				
Derivative Assets	\$	1,905	\$	1,226
Derivative Liabilities		8		269
Changes in fair value used for calculating hedge ineffectiveness		-		-

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Accumulated amount of fair value hedge adjustment on hedged item included in the carrying amount of the hedged items	June 30, 2021		December 31, 2020	
Cashflow hedge	Currency risk Foreign currency forwards		Currency risk Foreign currency forwards	
Nominal amount of hedged item (in US\$'000)	\$	32,119	\$	38,709
Line items in the statement of financial position where hedged item is located	Accumulated other comprehensive income		Accumulated other comprehensive income	
Assets	\$	n/a	\$	n/a
Liabilities		n/a		n/a
Changes in fair value used for calculating hedge ineffectiveness		-		-
Cashflow hedge reserve		1,897		957

17.4 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company believes that interest rate risk is low as all cash equivalents and short-term investments are made in fixed-rate instruments. The Company does have interest rate risk related to its credit facilities and FCC variable loan, where a 1% increase in the Canadian prime rate loan, holding all other variables constant, would result in a \$0.2 million decrease to the income before taxes. There is no interest rate risk on the convertible debenture and construction loan as the interest rates are fixed.

17.5 Liquidity risk

The Company has in place a planning and budgeting process to assist in determining the funds required to support the Company's normal operating requirements, including the ongoing construction of its second production line in Delta, on an ongoing basis and its future plans. The Company ensures that there are sufficient committed financing facilities to meet its short-term business requirements, taking into account its anticipated cash flows from operations, its existing bank indebtedness and additional borrowing capacity. The Company has maintained compliance with its banking covenants and remains able to satisfy its liabilities as they become due. Non-derivative financial liabilities are as follows:

	Carrying Amount		Contractual Cash Flows			
	June 30, 2021		2021	2022 to 2023	2024 to 2025	Thereafter
Accounts payable	\$	11,565	\$	11,565	\$	-
Other liabilities		359		288		71
Lease liabilities		22,573		2,806		4,131
Credit Facility		12,895		-		2,513
Construction loans and interest		24,389		81		-
Convertible debenture		13,395		-		6,488
Total	\$	85,176	\$	14,740	\$	32,097
					\$	9,001
						19,108

17.6 Fair value of financial instruments

Financial instruments that are measured at fair value are categorized as follows. During the period ended June 30, 2021, there were no transfers between level 1 and 2 instruments.

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	June 30, 2021		Level 1		Level 2		Level 3	
Financial assets								
Cash	\$	3,241	\$	3,241	\$	-	\$	-
Derivative assets		2,948		996		1,952		-
	\$	6,189	\$	4,237	\$	1,952	\$	-
Financial liabilities								
Derivative liabilities	\$	637	\$	-	\$	637	\$	-
Credit facility		12,895		-		12,895		-
Construction loan		24,144		-		24,144		-
Other liabilities		359		-		359		-
	\$	38,035	\$	-	\$	38,035	\$	-
	December 31, 2020		Level 1		Level 2		Level 3	
Financial assets								
Cash	\$	2,749	\$	2,749	\$	-	\$	-
Derivative assets		1,962		514		1,448		-
	\$	4,711	\$	3,263	\$	1,448	\$	-
Financial liabilities								
Derivative liabilities	\$	906	\$	10	\$	896	\$	-
Credit facility		10,021		-		10,021		-
Construction loan		20,083		-		20,083		-
Other liabilities		740		-		740		-
	\$	31,750	\$	10	\$	31,740	\$	-

18. COMMITMENTS

In addition to lease liabilities, the Company has the following commitments:

The Company has provided a standby letter of credit in the amount of \$0.3 million as security to the landlord.

The Company has, in the normal course of business, entered into various contracts. As at June 30, 2021, these contracts related to the purchase of green coffee in the amount of \$64.7 million (December 31, 2020: \$44.2 million), and natural gas purchase commitments in the amount of \$0.1 million (December 31, 2020: \$0.2 million), and capital purchases commitments of \$9.4 million (December 31, 2020: \$8.2 million). \$73.0 million of these contracts will become payable within twelve months from June 30, 2021.

19. SUBSEQUENT EVENT

On July 20, 2021, we amended our convertible debenture agreement with Mill Road. Under the new terms of the agreement, the maturity date was extended by one year from October 31, 2023 to October 31, 2024. Other amended terms were: (i) increase the maximum current interest rate from 7.85% to 9%, (ii) provide an additional 1.5% "payment in kind" interest, (iii) amend the conversion feature by (A) cancelling the existing conversion feature and (B) replacing the existing conversion feature with warrants to allow Mill Road to purchase up to 2.25 million common shares at a price of \$3.33 per share. The warrants expire on October 31, 2024.

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Under IFRS 9, the accounting for the transaction depends on whether the debt restructuring is considered an extinguishment or an adjustment to the existing liability (“extinguishment accounting” vs “modification accounting”).

The Company determined that this amendment should be considered an extinguishment as the terms of the agreement are substantially different given there is a 2.15% change in the interest rate and a replacement of the conversion shares with warrants.

In Q3 2021, the warrants will be recorded as a component of equity as it will be settled by the exchange of a fixed amount of cash for a fixed number of the Company’s equity and will not be subsequently remeasured. The warrants will be valued using the Black Scholes model.